

## Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 AGRE-00 /056 W

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R 241802Z JAN 77

FM AMEMBASSY LISBON

TO SECSTATE WASHDC 9925

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DEPT. PASS TREASURY FOR SYVRUD

E.O. 11652: N/A

TAGS: ECON, PO

SUBJ: BANK OF PORTUGAL ADOPTS SEVERAL MEASURES TO

CONSTRAIN FOREIGN EXCHANGE LOSSES

1. DURING THE PAST SEVERAL WEEKS BANK OF PORTUGAL (BOP) HAS ADOPTED SEVERAL POLICIES DESIGNED TO CONSTRAIN PORTUGAL'S FOREIGN EXCHANGE LOSSES. FOLLOWING SUMMARIZES THREE RECENT DECISIONS:

A. DOMESTIC CREDIT LIMITS: BOP HAS ISSUED INSTRUCTIONS ESTABLISHING LIMITS ON DOMESTIC CREDIT AVAILABILITY FOR FINANCING IMPORTS. THESE LIMITS ARE NOT COMPLETELY INFLEXIBLE, BUT ARE TO BE DETERMINANT UNLESS EXEMPTIONS ARE OBTAINED FROM BOP. PARTIAL EXEMPTIONS HAVE ALREADY BEEN INTRODUCED TO THE EXTENT THAT PETROLEUM IMPORTS, THOUGH TECHNICALLY ELIGIBLE FOR DOMESTIC CREDIT, ARE BEING OBLIGED TO SEEK 100 PERCENT FOREIGN FINANCING FOR A PERIOD OF AT LEAST SIXTY DAYS. BOP HAS ALREADY ADMITTED THAT ITEMS WHICH CANNOT ATTAIN THE AMOUNT OF FOREIGN FINANCING IMPLICIT IN THE GUIDELINES, AND ESPECIALLY CASES IN WHICH FAILURE TO IMPORT WOULD SEVERELY DAMAGE EMPLOYMENT, MAY APPLY TO IT FOR EXEMPTIONS TO THE LIMIT. THE CREDIT LIMITS, CLASSIFIED ACCORDING

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TO THE TYPE OF MERCHANDISE INVOLVED, ARE AS FOLLOWS:

CLASSIFICATION	PERCENT OF	MAXIMUM PERMISSIBLE
	TOTAL IMPORTS	DOMESTIC CREDIT

A. ESSENTIAL, NON-CAPITAL GOODS

1. FOOD	18 PERCENT	100 PERCENT
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2. NON-FOOD	15 PERCENT	100 PERCENT
3. RAW MATERIALS		
AND OTHER		
INTERMEDIATE		
GOODS	30 PERCENT	100 PERCENT
B. NON-ESSENTIAL,		
NON-CAPITAL GOODS	20 PERCENT	-0-
C. CAPITAL GOODS	15 PERCENT	AS STATED BELOW
1. LIGHT INDUSTRIAL		
EQUIPMENT	-	60 PERCENT
2. CAPITAL GOODS		
FOR RESALE	-	30 PERCENT
3. HEAVY CAPITAL		
GOODS	-	20 PERCENT
TOTAL	98 PERCENT	(SIC)

2. COMMENT: BOP CLEARLY ATTEMPTING TO USE ADMINISTRATIVE MEASURES TO DIVERT CREDIT DEMANDS FROM DOMESTIC TO FOREIGN SOURCES. DESPITE LIMITS INDICATED ABOVE, AN ATTEMPT WILL BE MADE TO SHIFT VIRTUALLY ALL REQUESTS FOR CREDIT TO FOREIGN SOURCES. GOVERNMENT ENTITIES, WHICH ARE IN MOST CASES THE AGENTS ELIGIBLE FOR 100 PERCENT DOMESTIC FINANCING, ARE BEING INSTRUCTED TO OBTAIN FOREIGN CREDITS WHEREVER POSSIBLE. WHEREAS CAPITAL GOODS CREDITS ARE EXPECTED TO BE ON TERMS OF ONE TO THREE YEARS, BOP WILL ACCEPT TERMS OF AS LITTLE AS SIXTY-DAY FOR CONSUMER ITEMS, ESPECIALLY AGRICULTURAL PRODUCTS.

B. FOREIGN EXCHANGE RESERVES: BOP HAS RETRACTED LIMITED OFFICIAL USE

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EXEMPTION FROM IMPORT LICENSE REQUIREMENT PREVIOUSLY EXISTING FOR MERCHANDISE IMPORTS OF LESS THAN 50,000 ESCUDOS IN VALUE. PRIOR IMPORT LICENSES WILL HENCEFORTH BE NECESSARY FOR ALL IMPORTS EXCEPT TECHNICAL, SCIENTIFIC AND CULTURAL PUBLICATIONS; PHARMACEUTICALS; AND SURGICAL, DENTAL AND VETERINARY EQUIPMENT VALUED AT 50,000 ESCUDOS OR LESS.

C. EXCHANGE CONTRACTS: BOP HAS CONSISTENTLY REFUSED TO ENTER FORWARD EXCHANGE CONTRACTS FOR IMPORTS. IT HAS, INDEED, MOVED IN THE OTHER DIRECTION. INDICATIONS EXIST THAT IT IS SETTING, AT LEAST ON A SELECTIVE BASIS, THE EXCHANGE RATE FOR EXPORTS AS OF THE TIME THE EXPORT LICENSE IS ISSUED. THIS MEASURE, OF COURSE, SHIFTS THE ESCUDO BENEFIT OF DEVALUATION FROM THE EXPORTER TO THE BANKING SYSTEM. BOP PROBABLY HOPES THEREBY TO REDUCE THE LEADS AND LAGS WHILE IT FOLLOWS A CRAWLING PEG.

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## Message Attributes

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**Capture Date:** 01-Jan-1994 12:00:00 am  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
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**Disposition Date:** 22 May 2009  
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**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
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**TAGS:** ECON, PO, BANK OF PORTUGAL, BOP  
**To:** STATE  
**Type:** TE  
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**Review Markings:**  
Margaret P. Grafeld  
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